GOVERNMENT OF INDIA
FINANCE
LOK SABHA

STARRED QUESTION NO:28
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FFI S IN DOMESTIC SHARE MARKET
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Will the Minister of FINANCE be pleased to state:

(a) whether the share market is becoming increasingly volatile owing to the constantly increasing capital inflow of foreign financial institutions in it;

(b) if so, the reaction of the Government thereto;

(c) whether the share of the capital of the foreign financial institutions is increasing while that of the domestic investors is decreasing in the Indian share market from 19th September, 2007 onwards;

(d) if so, the reaction of the Government thereto along with the details of the domestic and foreign capital investment as on 30th September, 2007; and

(e) the steps taken by the Government to protect the interests of common investors during the volatility period in the share market?

Answer

FINANCE MINISTER (SHRI P. CHIDAMBARAM)

(a) and (b): The volatility in securities market is a function of the perceptions of investors- domestic and overseas, retail and institutional - about the economy, the sector and the company. This perception is influenced by many factors including the macro-economic environment, growth potential of the economy, corporate performance, domestic and international events, and market sentiments. SEB1 is of the view that the investments made by various market participants and the market movement during the period 19th September, 2007 to 12th November 2007 do not indicate a causal relationship between foreign institutional investment and volatility.

(c) and (d) : SEBI has informed that foreign institutional investors had a net position of Rs. 16,454 crore on exchanges during the period 19th September, 2007 to 12th November 2007.

(e); SEBI and the Exchanges have put in place systems and practices to promote a safe, transparent and efficient market and to protect market integrity. The systems include advanced risk management mechanisms comprising on-line monitoring and surveillance and various limits on positions, margin requirements, circuit filters, etc. which reduce the scope for excessive volatility in the market. During the period of volatility. Exchanges focus on monitoring of the circuit filters and take appropriate action to modify the circuit filters for individual stocks.